

Queens man nabbed in cable-pirate crackdown

By ANN V. BOLLINGER

NEW YORK POST, THURSDAY, OCTOBER 7, 1993

A Queens businessman was arrested yesterday on charges of rigging cable-TV boxes so his customers could watch pay TV for free — a scam that companies say costs them billions of dollars a year.

Stan Norwalk, 50, of Flushing, was arrested after the Queens district attorney's office seized more than 1,300 rigged boxes at his company, Telestar Satellite, at 182-39 Jamaica Ave.

The boxes, which sold at \$225 each, "were carefully wrapped in cellophane, and bore warning stickers about the illegal pirating of programs," DA Richard Brown said.

Undercover investigators bought 40 rigged boxes, some of which were altered on order to fit a buyer's particular cable service, Brown said.

They also seized \$10,000 in cash and the equipment used to fix the boxes at Norwalk's firm, also known as SCI Communications.

"Cable piracy has become a major national problem," said Barry Rosenblum, president of Time Warner Cable of New York City.

The National Cable Television Association estimates cable companies lose \$4.7 billion a year to customers using rigged boxes.

Norwalk was charged with criminal possession of stolen property, falsifying business records, and unlawful duplication of computer materials.

Brown said buyers of the boxes could also face criminal charges.

"It would be hard to imagine these buyers don't know what they're buying," he said.

Brown cited a survey that found 35 percent of cable-TV subscribers in the New York City area own rigged boxes.

"For each illegally owned box, an estimated \$3,108 in potential revenue was lost over the five-year life of the box," said Brown.

Time Warner Cable and the Motion Picture Association of America provided funding and manpower for the investigation.

"By joining forces with the Queens DA's office, we will ensure that cable thieves are dealt with to the fullest extent of the law," said Rosenblum.

Norwalk faces up to seven years in prison if convicted.

CONFESSIONS OF A CABLE PIRATE

By GARY KIM

About a year and a half ago, after a slump in the computer industry threw him out of work, a 36-year-old regional sales manager we'll call "Richard" answered a newspaper ad placed by an electronics firm seeking phone sales agents.

What he didn't know then was that the firm sells pirate decoders. It's not something he's proud of. But with a family of four to feed and a wife working the graveyard shift at a major retail outlet, even the two jobs he's now holding have barely been enough to get by on.

He's grown to "hate the idea of doing this," so one way or the other, Richard says he's getting out. But before doing that, he called *Multichannel News*, "sort of as a way of confessing," and agreed to share his observations about the business.

Richard called after reading an article we published about signal security, in which one descrambler manufacturer representative said the objective of new security measures was simply to raise the cost of a pirate decoder up closer to \$700, with the aim of making it a less attractive proposition.

Richard doesn't think that'll work, based on what he knows about the cost of retrofitting descramblers.

A case in point: Richard's firm three months ago was able to break security on the Pioneer Communications of America Inc. BA 6000 series decoders, a box that has been impervious to most threats in the past.

In fact, Cox Cable San Diego's manager of cable theft, Randy Weaver, said he'd "never yet seen a pirate Pioneer decoder." That will change shortly; Weaver plans to have one ordered from the pirate company.

OPS & VENDORS FIGHT BACK

The cable industry's counterattack has begun. Pioneer

officials are working on a board-level change to their encoders that may defeat the latest attack developed by the firm Richard works for.

But Richard says his firm is shipping pirate decoders to systems "up and down Highway 5" in southern California, including those systems outfitted with the BA 6000, such as Cox Cable San Diego.

Already, the firm ships between 50 and 100 pirate decoders a day, mostly to California and the New York metropolitan area. "We're doing lots of business in San Diego," he said.

"I'm not an electronics whiz, but when I started, Pioneer was the toughest to crack," he said. "Today, we have a terribly profitable answer." The pirate Pioneer clones sell for \$320 each, he said.

The company buys the base units, Scientific-Atlanta Inc. boxes in this case, for \$24 each, and retrofits them using \$18 worth of parts, giving them a "Pioneer" personality, he said.

"Of the first 30 to 40 units we sent out, about half came back disabled by a 'bul-

let,'" he said. "But the latest shipment of 40 to 50 boxes all stayed out."

Apparently, the countermeasures that were effective four months ago aren't disabling the latest generation of pirate boxes.

ELECTRONIC BULLET

Then there was the much-heralded "electronic bullet" fired by American Cablevision of Queens in New York City. That countermeasure disabled some 300 pirate To-com boxes in April 1991.

In other cases, bullets have failed to make much of a dent. One technique used by S-A, for example, puts

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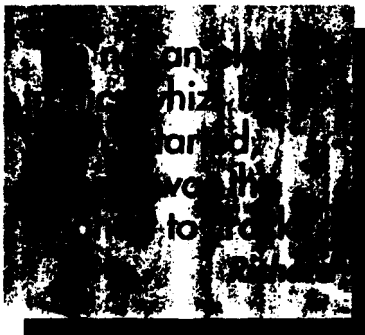


Illustration by Judy Wong

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Confessions From A Cable-Box Pirate

CONTINUED FROM PAGE 3

the descrambler into a "standby mode," disabling the tuning function. Unfortunately, that can be overcome by unplugging the descrambler for 30 seconds, and then plugging it back in, said Richard.

When some customers complained about having to manually unplug the boxes, Richard's company suggested adding an appliance timer that automatically shuts the box off for a while every day.

The popular S-A "8580" terminal can be cloned by a model "8536 Plus" unit that "isn't bothered by bullets at all," Richard said.

Clones of Jerrold tri-mode boxes, including those using the "fast tri-bi" encoding method, and Impulse 7000 two-way models, for example, are available now.

New models, such as the S-A 8600, are a problem because the raw material typically isn't available. But the 8590 can be cloned, Richard said, emulating the 8600's functions, albeit without the on-screen features.

RESISTANT TO PIRACY?

Among the few boxes this particular pirate outfit doesn't sell are the Zenith Electronics Corp. PM-1 and PZ-1. The PM-1 is a one-way addressable box. The PZ-1 is a two-way addressable box.

Manhattan Cable and numerous Sonic Communications systems also have proven resistant to attack so far. Sonic, which operates many systems in California, uses Jerrold baseband equipment, though the encryption and addressing schemes are compatible with the old M/A-Com Cable Home Group boxes that only a couple of systems, including Oceanic Cablevision in Honolulu, ever adopted.

"Maybe that's one reason they have the problem," said John Adams, Sonic Communications general manager. "At any rate, we're not aware of a real pirate problem."

There are still two Jerrold baseband models left that have proven troublesome to at least this one pirate firm.

Continental Cablevision district engineer Paul Gibson said his system is "right in the middle of looking at" signal-theft issues. Gibson's Fresno, Calif. system serves about 100,000 basic subscribers. A growing number of those customers are stealing the four premium and two pay-per-view signals, however.

"We sell close to 100 boxes a month to Fresno, Calif.," said Richard, the pirate firm informant. "There are a half-dozen to a dozen people pushing lots of boxes there."

Ironically, owners of pirate decoders are "some of the best basic customers you'll ever find," said Cox Cable's Weaver. They're happy to pay for basic and steal all premiums and pay-per-view.

BASIC VS. PAY THEFT

In fact, basic cable theft and pay cable theft are very different matters. The Cox San Diego system, which has nine full-time tap auditors in the field, has converted 2,500 illicit active drops to paying status over the last eight months, and expects to reach 4,000 by the end of the year.

Illegal decoders, on the other hand, often are detected when an anonymous phone call comes in. "Most of our leads are from babysitters, neighbors, ex-wives and ex-girlfriends," said Weaver. "It seems people like to brag about how they're getting programming for free."

In other cases, suspicions may be raised when penetration rates in a single MDU, for example, seem out

of line with system averages, said Bruce Kent, field operations manager for Garden State Cable in Cherry Hill, N.J. Garden State runs an audit team of four to five people.

Times-Mirror Cable Television is even more aggressive on tap audits, though it appears that significant volumes of illicit decoders may be making their way into Dimension Cable systems throughout southern California.

"Every installer, technician and sales person is responsible for inspecting at least one tap a day," said Steve Quinones, national drop audit manager. As a result, Quinones estimated that, nationally, Times-Mirror systems have less than 2 percent illegal drops connected. In addition, about 10 percent of all disconnects are double-checked as well.

To put teeth into the policy, a crew of auditors is constantly on the road, performing spot checks on 10 to 20 percent of all drops in a system. "If the system doesn't pass, the GM has to pay for a full drop audit," said Quinones.

Decoder piracy is another matter, however, and is left to the discretion of local managers, he said. One telltale sign of possible piracy is an unexplained drop in pay penetration.

"It seems people like to brag about how they're getting programming for free."

**Randy Weaver,
manager, cable theft,
Cox Cable San Diego**

Warner Cable's Palm Springs, Calif. system also is concentrating on tap audits. "We've really concentrated on that over the last two to three years," said Maynard Jarvinen, technical operations manager. Warner also has moved to greater use of lock boxes.

Though Jarvinen said it was "fairly easy to take countermeasures once we know the fake identification numbers of pirate boxes," things could change there as well. Palm Springs uses the BA 6000, and was specifically mentioned by the under-

cover pirate firm employee as a place sales were impossible until the last couple of months.

Things could take another turn soon. Though Richard hasn't personally seen it, a new device known as "the cube" is being peddled. "One guy told me you set it on top of a Pioneer or Jerrold box and it descrambles everything," he said. "The guy was looking for a manufacturer to build it."

One security officer at a descrambler house said "some significant number of operators just don't feel they have a problem."

OTHER PROBLEMS

The other problem, even in areas where the operator has a local cable theft ordinance on the books and a willingness to push the matter, is that "you run into people who can't go to law enforcement," said the source.

"In some cases, the local fire house is part of the distribution chain," he said. The pirate source confirmed the extent of that particular problem. "The two largest categories of buyers, by job title, are policemen and firemen," he said.

Indeed, one problem is the mushrooming of interest in pirate decoders from otherwise law-abiding people. Decoder theft has "gone suburban" recently, and seems to spread "at the neighborhood level," said the decoder firm security expert.

Some calls come from higher places. One owner of an electronics supply house, who won't deal in refurbished converters of any kind, said he got a call in the last month from a U.S. congressman who said he was looking for a universal remote control.

The talk eventually got around to pirate decoders. The congressman said he knew "lots more" could be sold where he was. ■

Cable Pirates Busted in Three Cities

By LESLIE ELLIS

In what may be the largest illegal descrambler bust ever, the Federal Bureau of Investigation last week nabbed 35,000 pirate converters from a multimillion-dollar outfit in a three-day raid made in Las Vegas, Reno, Nev., and San Francisco.

The actions of this group alone may have resulted in revenue losses of \$100 million or more to cable industry and franchise authorities across the country, according to the

NCTA's Office of Cable Signal Theft.

"This is an astronomical raid," one source said, noting that the number of confiscated units in this raid represents almost half the total number of devices seized by officials nationwide last year.

The boxes were taken from three warehouses used by a West Coast company operating under several aliases, including "Global Cable Networks," "D.S.M.," "Video

Technology Corp." and "Videotek Corp." The firm shipped an average of 300 illegal boxes a week, sources said.

The outfit advertised its wares nationally in electronics magazines and shipped boxes made by numerous industry vendors, including Jerrold Communications.

The altered boxes were programmed to descramble premium and pay-per-view programming and also could descramble basic

services in cases where local cable companies encrypt basic channels.

Ironically, while the busts were taking place, the NCTA's Jim Allen was delivering a speech to the Society of Cable Television Engineers Cable-Tec Expo in target-city Reno, in which he put annual industry losses to cable signal thieves at \$3 billion.

No criminal charges have been filed yet in the latest piracy bust. "We have to present the evidence to

a grand jury and get an indictment. That takes some time," said FBI special agent Barbara Madden.

FBI officials said they hadn't completed a full audit, but preliminary evidence shows that the company employed 50 people or more. The FBI has also recovered company's business records.

NCTA and FBI officials speculate that the boxes may have been acquired off-shore, in an incomplete state, then assembled at one of the group's manufacturing facilities.

"They were retrofitting the converter boxes themselves, so we have reason to believe they were actually in the manufacturing business as well," Madden says.

Illegal converters/descramblers are typically obtained by the pirates through three channels: offshore manufacturers, reverse-engineering of legitimate boxes and illegitimate companies posing as converter repair distributors.

Of the devices confiscated within the U.S., "the cable operator is usually at least once removed from the (illegitimate) distributor," said one engineer at a large converter manufacturing facility who asked to remain anonymous.

In some cases, operators may sell depreciated boxes to refurbishers, but lots of boxes may later be transferred to third parties whom the converter repair vendor believes to be legitimate. In other cases, boxes are simply stolen from warehouses, the source said.

Industry sources are pleased with the magnitude of the recent bust, but remain dismayed at the severity of the piracy problem.

"It's unfortunate that the industry has taken so long to get serious about it (piracy). Had we gotten the local police and legal organizations involved three or four years ago, we could have stopped some of this before it got this bad. Now," one source concluded, "it's proliferated exponentially." ■

FBI Seizes \$500,000 Of Cable Equipment

SAN JOSE, Calif. — Following up a telephone tip, the FBI last week executed a warrant on a home here and confiscated 400 whole and disassembled cable converters, customer records and computer chips valued at \$500,000.

The resident, Earl Ronald Schultz, 46, was conducting a business out of his home under the name West-Tech. He was not arrested, pending the conclusion of the investigation into the source of the cable equipment, according to the FBI. (An earlier three-city bust netted 35,000 pirate converters. See story page 11).

The tip was phoned in to a secret witness line established by Heritage Cablevision.

Steve Reifschneider, the system's general manager, said the investigation began a little over a week ago after Heritage received a

tip from a local man who was offered an altered set-top converter.

Reifschneider said the majority of the hardware recovered was Zenith Z-tac addressable boxes, but the serial numbers will have to be checked to determine if they came from Heritage or other sources.

The FBI seized customer lists and United Parcel Service receipts, leading them and Heritage to believe legal boxes were solicited from cable customers inter- and intrastate to be altered to receive all programming signals.

State law allows the recovery by cable companies of \$5,000 or triple actual loss from consumers using illegal converters. Reifschneider said the system will use any customer records recovered in the raid to solicit payment from West-Tech customers. ■

Cable-TV Pirates Become More Brazen, Forcing Industry to Seek New Remedies

By MARK ROBICHAUX

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK — When fight fans in Maryland tuned in to the much-touted pay-per-view match between Mike Tyson and Razor Ruddock last June, hundreds of viewers were sucker-punched at the opening bell.

That's when the picture on their screens went wavy. The local cable system had suddenly scrambled signals in a way that obliterated the picture on TV sets that had illegal converter boxes.

In the first hour, the cable company received more than 200 complaints from disgruntled viewers — all of whom had expected to get the event without paying for it. A day later scores more called. When pressed for answers about their service, most hung up.

"Did we get satisfaction?" asks John Eddy, president of the company, Cable TV Montgomery, a unit of Hauser Communications Inc. "Of course we did."

Brief Relief

But it was only brief relief for a company that loses \$12 million a year in pirated pay services. And Cable TV Montgomery isn't the only one hurting. Federal investigations have uncovered a number of illegal cable distributors whose vast networks display an unprecedented sophistication and financial scope.

The illegal distributors sell from warehouses instead of car trunks now, and national advertising, direct-mail campaigns and 800 numbers have helped them build multimillion-dollar operations. They even accept credit cards. In a recent raid in New York, investigators seized 50,000 illegal decoders from a company with an estimated \$10 million in annual revenue.

"Cable piracy is pervasive, it's growing and there is no quick cure for the problem," says Jim Allen, director of the National Cable Television Association's cable theft office. Cable system operators argue that the same people who steal cable would never dream of walking into a 7-Eleven and swiping a Twinkie.

"People don't think stealing cable is a real crime. They don't take it seriously," says Kent Walker, an assistant U.S. attorney in California who is negotiating a plea bargain with a distributor who was arrested with 40,000 illegal descramblers.

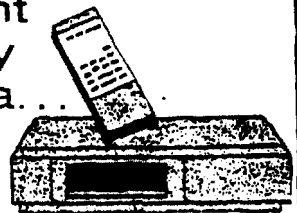
Less Expansion

Revenue lost from cable theft — or piracy as the industry likes to call it — has doubled in five years to more than \$3 billion, according to the National Cable Television Association. That is the equivalent of 17% of total industry revenue. Cable piracy is particularly painful for the industry now, because the torrid growth of years past is all but over. Cable can reach into

A Cable Pirate's Treasure

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Signature

Date

Ads in electronics magazines brazenly offer equipment designed to aid and abet cable theft, the industry contends. Though the ads carry a waiver requiring buyers to notify their cable systems, few ever do.

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95% of all U.S. homes, leaving little room for expansion.

The electronic theft is especially damaging to the pay-TV business. Most pirates subscribe to the cheapest cable service and buy illegal decoders to heist monthly pay services costing \$30 to \$70 a month. That damages an already ailing industry: Last year every major pay service but Walt Disney Co.'s Disney channel lost subscribers. Time Warner Inc.'s Home Box Office, the leader, lost 300,000 homes.

Cable operators are struggling to fight back, doggedly pursuing pirates with private detectives, amnesty programs, ad campaigns and new high-tech countermeasures. With the aid of new scrambling, or "encryption," technology, some cable operators are firing "electronic bullets" into pirates' homes — streams of data that render the illegal descramblers useless — but that approach is still costly and requires sophisticated equipment. Cable systems are also pursuing criminal convictions and are increasingly squeezing distributors and pirates in civil court.

Earlier this week, at the cable industry's annual convention in Dallas, the cable

association unveiled a national anti-theft ad campaign featuring the stern-voiced John Walsh, host of "America's Most Wanted," to run on Fox Broadcasting Co.'s affiliates. Awards were also handed out for the six toughest anti-piracy cable systems in the U.S. In the No. 1 spot: Cable TV Montgomery, the Maryland system that zapped the Tyson fight.

At a Loss

But for all their efforts, cable operators are at a loss to thwart the vast majority of theft. Under federal law, distributors of illegal decoder boxes can get up to five years in prison and big fines. Viewers at home can face up to six months in jail and a \$1,000 fine. But prison terms are extremely rare. Stiff fines are seldom levied and rarely paid in full. Rank-and-file viewers are hardly ever caught — and when they are, they often go unpunished.

And so large-scale distributors are often free to brazenly engage in modern marketing techniques. Many buy ads in the back pages of electronics magazines such as Popular Science, Radio Electronics and

Please Turn to Page B6, Column 3

Cable-TV Companies Are Losing Millions in Pirated Pay Services

Continued From Page B1

Nuts & Volts. Today the couch potato who wants premium services without paying for them can dial an 800 number, request 24-hour delivery and even get a service warranty. To match the decoder model to the caller's cable system, many distributors need only punch the customer's ZIP code into a computer data base.

The pirate companies, trying to sidestep legal trouble, use a simple fine-print waiver in their ads, such as the phrase "Void where prohibited by law."

An Override Circuit

Many illegal converters sell for between \$100 and \$300 and look like the cable boxes that are used for basic service. But inside, technicians have "blown the chip," replacing the standard circuitry with an override circuit that enables the box to receive pay services without authorization from the local cable company. Others add a tiny box, or descrambler, to the box provided by the cable company.

The 800 services explain away questions about the legality of their products with responses such as this one, given to a recent caller: "You aren't authorized to view premium channels unless you notify the cable company." (Few buyers bother to do that, and it is unlikely the cable companies would agree to allow it.)

Frustrated by the bold tactics, some cable companies play cops and robbers, with mixed results. Cablevision Systems Corp., Woodbury, N.Y., helped federal agents in a 16-month investigation that led to the biggest seizure to date — 50,000 decoders in warehouses in Brooklyn and Long Island. Cablevision sent in its own undercover people to make the buy as security agents monitored the purchases from a van across the street.

"We handled it just like a drug operation," says Henry Hack, a former policeman who is a manager of investigations at

Cablevision. In August 1990, FBI agents raided the warehouses, and distributor Can Muneyyirci was later arrested on federal charges. Cablevision filed a civil suit against him. Both the criminal case and the civil suit are pending. A lawyer for the accused couldn't be reached for comment.

Tax Evasion

And in what appears to be the biggest win yet, Arthur Brett Kaufman was convicted in federal court on tax-evasion and mail-fraud charges for selling 6,500 illegal decoders in 1988. He was sentenced initially to pay \$1.3 million in restitution to several cable companies and serve three years in prison. The judge has since reduced his sentence to 13 months in prison and restitution of \$140,000.

Despite the occasional victories, cable operators are still tormented by thousands, if not millions, of individual viewers who divine devious and ingenious ways to get something for nothing.

They range from doctors to ditch-diggers. A New York insurance salesman bought 10 illegal converters and gave them to his best customers; he hasn't been penalized.

The snazziest new weapon in the war on pirates is the electronic bullet. If illegal chips are in use, the bullet uses the chips' own programs to halt service, distorting the images.

After it fired a bullet in Queens, N.Y., in April 1991, Time Warner Inc.'s American Cablevision fielded calls from hundreds of pirates who were persuaded to bring their boxes in for testing. Then the company filed suit in federal court against 317 people; 314 have since settled their cases for a fine of \$500 apiece.

But Time Warner's victory may be short-lived. At least one company is now advertising a new line of converters that are touted to be entirely "bullet-proof."

M: THE VIRGINIAN-PILOT WEDNESDAY, JULY 18, 1990

Man gets 18 months for TV decoder sales

By Joseph Cosco
Staff writer

NORFOLK — A Virginia Beach man was sentenced Tuesday to 18 months in prison for selling nearly 6,000 devices used to illegally receive premium cable channels such as HBO and Cinemax.

Kevin M. Coyle also was fined \$4,000 by U.S. District Judge Robert G. Doumar.

Coyle's business cost cable companies nearly \$2 million in revenue, according to testimony presented at the sentencing. His company was known as AMCOM.

Coyle's attorney, William R. "Buster" O'Brien, said he would appeal.

Doumar convicted Coyle, also known as David Winchester, in a non-jury trial in May, saying that Coyle manufactured, advertised and sold the devices through the mail.

Known as decoders or descramblers, the devices intercept and unscramble broadcast signals, allowing consumers to receive programming without paying the subscription fee.

James S. Allen, of the National Cable Television Association in Washington, D.C., said Coyle's conviction is one of the nation's first. He said a number of cases are pending.

"This is one of the larger cases we've seen," said Allen, director of the association's office of cable signal theft.

A study by Allen's office calculated that Coyle's business cost cable companies around the country more than \$1.7 million from 1988 to May 1990. Information for the study

came from Coyle's records, which were seized by investigators.

Allen said the losses were based on sales of 5,936 devices. The devices included decoder "filters," which allow reception of a particular pay channel, and decoder "boxes," which can unscramble premium stations.

Coyle grossed \$115,903 in sales of boxes and \$72,475 in sales of filters, sales records obtained by the U.S. Attorney's Office show.

Although the sale of descramblers is a misdemeanor, Coyle was charged with six felony counts under the mail-fraud statute. Doumar sentenced Coyle to 18 months on each count but allowed the sentences to run concurrently.

"It was a fair sentence, which hopefully will deter cable piracy in the future," said Assistant U.S. Attorney Alan M. Salisbury.

Although Coyle reportedly grossed almost \$190,000 in the enterprise, he apparently has little of the money left. Doumar could have fined him up to \$40,000, but he said Coyle couldn't afford to pay a big fine. For the same reason, Doumar said he could not order Coyle to pay restitution to the cable companies.

"In reality," Doumar said, "you can't get blood out of a turnip."

The Federal Communications Commission has notified Coyle's customers that they have an amnesty period during which they can surrender the equipment without being penalized.

The FCC's Norfolk office initiated the investigation into Coyle's activities. The investigation was handled by the FBI and the security division of Cox Cable Television.

Illegal descrambler can tune in trouble

By Robert Albrecht
Dispatch Staff Reporter

Are you enjoying cable television cheaply — with a descrambler bought on the sly?

Better not spread it around. Better hope whoever sold it to you did not jot down your name and address.

FBI agent David Schroeder and other agents will not hesitate to get you involved in the U.S. justice system.

Descramblers, devices that enable cable or satellite dish television customers to receive unscrambled signals without paying monthly subscription fees, are illegal, Schroeder said.

The descramblers are available mostly through catalog companies and through some television sales and repair shops. The only legal source is the cable service to which you subscribe.

A Reynoldsburg television shop owner is to be sentenced soon for selling descramblers. A similar case involving a N. High Street shop owner is to go before U.S.

District Judge James L. Graham on May 29.

Before sentencing a man in 1988 for selling descramblers, a federal judge in New Jersey noted, "In essence, defendant was selling electronic burglary tools.

"We must make it clear that theft through electronic means is just as much a crime as taking money out of a cash register."

The judge sentenced the seller to 36 months in federal custody and five years probation and ordered him to pay \$1.3 million in restitution.

At \$300 or \$400 each, the attraction a decoder holds for TV fans is obvious.

Using one, a cable subscriber paying the basic monthly rate of \$12 to \$15 can tap into premium programming that would otherwise cost up to \$70 a month.

"You can recoup your cash in a year," Schroeder said.

And you could lose a lot more if you are found guilty of possessing one.

Penalties for use of such equip-



Dispatch photo by Eric Albrecht

TV descrambler confiscated by FBI

ment were stiffened in 1986. A private user faces up to six months in jail and a \$2,000 fine. Businesses may pay more dearly.

A local businessman, whom Schroeder declined to name, used the mail to order descramblers for five employees.

"It so happened that 10 days after he ordered those, the FBI executed a search warrant" for the mail-order business, Schroeder said. Among the confiscated items was a list of customers.

The local businessman was not prosecuted, but he had to testify against his source, and he had to surrender the descramblers.

"The FBI in central Ohio is taking a hard look at these operations ... because we have the support of the U.S. attorney, D. Michael Crites," Schroeder said.

He said Crites has indicated he "is willing to prosecute any case that slows significantly commercial gain by a person or enterprise."

MIAMI HERALD SEP 24 1992

FBI nabs 1,000 cable decoders

By MICHAEL CROOK
Herald Staff Writer

Getting HBO, Showtime and other premium cable channels on television without paying is a federal crime, FBI agents said after seizing about 1,000 cable signal decoders Tuesday in a Boca Raton warehouse.

"This facility was a location where decoders were being shipped throughout the United States," FBI agent Robert Neumann said after the 10 a.m. raid on N.A.S.-Transworld, 5061 N. Dixie Hwy.

Decoders — electronic devices rented legally by cable companies to consumers and

placed atop TV sets — were sold directly from the warehouse, shipped elsewhere or marketed by mail order.

The average cost: \$250 each, Neumann said.

"We also seized a massive amount of business records," Neumann said. "But no arrests were made. The investigation is continuing to determine where the decoders were coming from."

The manufacture and sale of decoders is a federal crime punishable by a year in prison, a \$25,000 fine or both. Just having one is also

a federal crime punishable by six months in prison, a \$1,000 fine or both.

Investigators were tipped by the biggest manufacturer of legal decoders in the United States, Jerrold Communications.

"These individuals advertised in national magazines," said Jim Earnest of Jerrold's security division. The copy for one ad said, "Why pay high fees?" for premium cable channels, he said.

The National Cable Television Association estimates cable operators lose \$3 billion a year to viewers who pirate premium channels.

Trapping pay-per-view theft

Cablevision of Boston sleuths snoop for scofflaws

By Karen Edlitz

Suspecting an illegal screening of the June 12 Leonard-Hearns pay-per-view fight, two Cablevision of Boston theft-of-service investigators that night entered a Boston tavern. To their surprise, they saw 50 men, drinks in hand, huddled around a television set watching... a home shopping network. Unable to prove the patrons were in fact there to watch the much-publicized bout, the two investigators quickly left.

But that case is the exception. In less than two years, Cablevision Systems Corp.'s Boston operation has become known as a leader in combatting theft of service, especially theft by commercial accounts during pay-per-view events. Its audit department—10 men and two women—is an investigative squad responsible for quashing once-rampant theft of service among subscribers and approximately 225 commercial accounts.

The larceny can come in many forms. Usually subscribers buy "black boxes" (illegal addressable boxes). Other illegal boxes are bought from "pirates" who alter obsolete equipment purchased from cable operators. Bar owners, wishing to lure paying customers with pay-per-view events, often order the event at home then hook the authorized box up in their establishments.

Experts agree that "black boxes" have recently become so sophisticated, that in addition to premium channels, they can also receive pay-per-view programming.

Through it all, Cablevision has made significant headway. In November 1988, during the unit's first pay-per-view event (the Leonard-LaLonde fight), three investigators caught 17 violators out of only 25 establishments they checked.

But during the recent Leonard-Hearns fight, the unit and additional employees found only six violators out of approximately 217 establishments surveyed. "The word is out. We hammered them," said G. William Dunderdale, system security manager for Boston/Brookline Cablevision. Ironically, the same night, another Cablevision system in Cleveland, N.Y., which had

just begun its theft-of-service program, checked 83 establishments and caught 56 illegally showing the event.

By the end of 1988, Cablevision of Boston converted 64 commercial accounts which had been stealing the signal to paying accounts.

The Boston unit's strategy included establishing a hot line for citizens to call about violators stealing service. The line receives five to eight calls a week. Also, Cablevision has programmed its automated response unit—a pay-per-view ordering mechanism—to limit PPV access for certain commercial accounts.

Filtering out

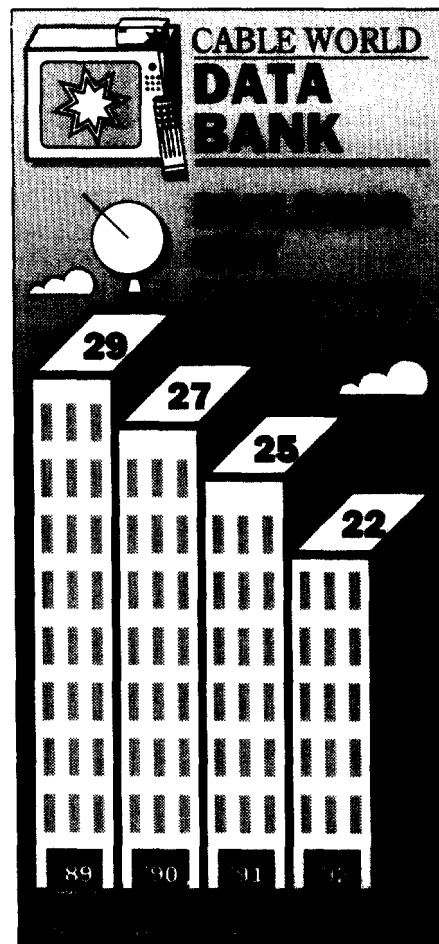
Technology can also play an important role in preventing theft of pay-per-view. Although Cablevision has considered addressable taps, at \$210 per unit they would be "cost prohibitive," Dunderdale said. Instead, Cablevision has purchased 300 high-band filters produced by Microwave Filter Co. Inc., which attach to the existing tap and filter out pay-per-view programs.

"Every time we build a 12-foot wall they get a 13-foot ladder," said Dunderdale, although he notes that "the universe of commercial accounts is not monumental."

In 1988 the cost of the theft department was \$300,000, including personnel, trucks, tools and overtime. Dunderdale believes the unit last year resulted in nearly \$500,000 in revenue for the system.

Theft of service is considered a crime by federal, state and local authorities.

In Boston, when Cablevision investigators discover a violation, they note the number of patrons and television sets and whether a satellite reception dish or cable hookup is being used. (Operators should not seize equipment at the moment of discovery, notes Dunderdale, because the act may rile patrons and may be considered a form of theft.) The next day, investigators set up a meeting with the owner to seek compensation without going to court. Cablevision then informs the owner that the cable operator may withhold cable from the commercial establish-



ment pending any court decision. (Cablevision, however, may only offer a pre-litigation settlement if threatening a civil complaint; a deal in criminal matters is illegal.) Ninety percent of its cases are settled out of court. "You really have the hammer in your hand," said Dunderdale.

In a study updated two years ago, the National Cable Television Association estimated the cable industry's overall theft of service ranged from 12 to 15 percent of homes passed. Seven to 10 percent of that covers "passive subscribers" who receive free cable because of improper disconnection or work-order procedures, costing operators approximately \$1.4 billion in lost revenue.

That amount, however, does not take into account lost revenue from pay-per-view, which is increasingly perceived by some operators as an up-and-coming revenue source: 1988 pay-per-view revenues are estimated at \$210 million, according to Paul Kagan Associates Inc.

TECHNOLOGY

Stopping Piracy Can Mean Big \$\$ Returns

NEW YORK — Battling piracy can lead to increased earnings of hundreds of thousands of dollars, according to those who have begun to actively pursue signal theft.

Not only is active pursuit profitable, but it also is becoming a necessary step to keep pace with an illegal-signal industry that grows as the value of the product is enhanced by pay-per-view events, raising the stakes to about \$100 to \$150 month, according to Jim Allen, director of the National Cable Television Association's Office of Cable Signal Theft.

Allen said the current "official" estimate the NCTA hands out on signal theft, approximately \$1.4 billion a year, is conservative at best, with the actual cost looming around \$1.5 billion to \$2 billion annually. He added that such programs as tap audits can "easily" translate into hundreds of thousands of dollars per year in income for the operator of a large system.

Bill Dunderdale, system security manager for Cablevision of Boston, said his unit, which actively pursues pirates on a full-time basis, has saved the system \$240,000 in stolen service as of July 1 this year. The system, which has 102,000 subs, recouped \$175,000 from residential pirates and close to \$65,000 from commercial establishments such as bars and restaurants.

Dunderdale explained that with numbers like those, a full-time staff is easily justified. For example, he said, his anti-theft division in 1988 employed 11 at an operating cost of around \$300,000. The effort, he determined, recovered about \$500,000.

Although he admitted that the fight against signal theft has a long way to go — "We (the operators) build a 12-foot fence and they (the pirates) bring a 13-foot ladder" — Dunderdale said positive results are being achieved. "The word is going around...they know we're prosecuting," he said.

Helping to spread the word is an educational program that Dunderdale said includes an ad that tells the cable sub that piracy is illegal and those involved in it will be prosecuted. The ad runs 15 to 20 times a day on different channels, along with a 24-

hour hot line through which subs can "rat out each other," he said.

For Cablevision's Boston system, the next step in this battle is a house-by-house, street-by-street tap audit that should take two years.

With this increased effort, Dunderdale has added two people to his staff — bringing the total to 14, of which 12 are field personnel.

He said apathy isn't to blame for the seemingly small number of operators that are actively pursuing pirates, contrary to the charge that is often heard. Rather, he said, the problem is due to naivete.

The fight against piracy is gaining momentum from the publicity that major busts are given, OCST's Allen said.

Bob Astarita, corporate director of security for Cablevision Systems Corp., said that last fall's conviction of Albert Brett Kaufmann, "America's biggest supplier of illegal pay decoders and descramblers," was a significant turning point in the fight against piracy. The case, Astarita said, showed the industry how serious the problem was and relayed the message that piracy would not be taken lightly. Kaufmann was ordered to pay a \$1.3 million fine and serve three years in a federal penitentiary for his crime, which was estimated to have cost the cable industry \$4.8 million from December 1984 to July 1988 (see Multichannel News, Sept. 19, 1988, page 1).

Cablevision prefers to convert illegal hookups to paid subscriptions rather than prosecute, Astarita said.

He said some instances of signal theft, like tapping into an active wire that was not turned off when a disconnect was ordered, could be easily solved by educating the industry about how much something that simple costs the operator.

He noted that in smaller systems, or systems that have 60 or 80 percent penetration, piracy may not be a significant problem, but with higher sub bases and low penetrations, illegal hookups surely are costing the operator a good amount of money. ■

The CUTTING

EDGE

Give Sigma A Strong Push

By GARY KIM

The waiting's over. Oak Industries' board of directors last week rejected possible courses of action including closing cable-equipment maker Oak Communications Inc. or selling it. Instead, company management opted to revitalize the unit and is expected to make a major financial recommitment to the previously troubled unit.

Oak Communications and its Sigma line of descramblers are back in business.

Important details remain to be worked out. The company has said it wants to up its investment in OCI and will consider joint ventures and possible acquisitions in an effort to the hardware unit. The industry should expect a renewed bid from Oak for a strong No. 3 spot in the market-share standings. Company management seems to realize that giant leaps are required and apparently has the stomach to risk them.

OCI had been dead in the water until last week's statement of direction, which should clear the way for a resumption of Oak sales and marketing efforts.

OCI had been a somewhat incongruous profit center under the McNeely regime, which had positioned Oak Industries as a low- to middle-technology company. OCI, in contrast, always has been a software-intensive high-technology group and never seemed to quite fit in. We'd bet the new emphasis on OCI also indicates a management leaning toward further business concentration on TV and electronics.

Sigma is the real jewel at the moment. Introduced five years ago, it suffered because it arrived at a time when cable TV operators — who had been emphasizing signal security and telling vendors they would pay \$140 a box to get it — changed course and instead began to buy more traditional, less technology-rich boxes in the \$100-or-less range.

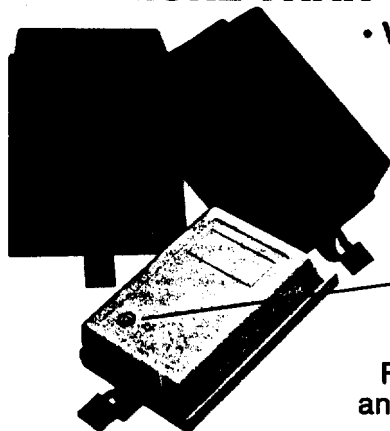
The resulting shift in demand proved unsettling, although Oak now has 500,000 units in the field and still can say that the encryption scheme hasn't been broken, despite a presence in theft-heavy franchises such as Detroit and a number of urban New Jersey systems.

Despite its age, Sigma has kept technological pace with new industry requirements. It migrated to impulse PPV capability, was an early convert to small-footprint designs, is compliant with the new MultiPort standard and recently was chosen as the terminal for GTE's Cerritos, CA, fiber-to-the-home trial. Sigma's audio encryption technology provides a level of "hard" security generally recognized as being in the forefront of the industry. In addition, manufacturing efficiencies now make Sigma cost-competitive with other top-of-the-line converter/descramblers on the market.

Enhanced security techniques seem destined for a resurgence in cable TV, if only because the value of the programming product has grown substantially since the early 1980s. Sigma is an important industry resource in this regard. Hats off to the new management. We had earlier planned to argue in this space, at this time, for exactly the course of action the new board has chosen. Instead, we're happy just to say, "Good luck."

Despite its age, Sigma has kept technological pace with new industry requirements.

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DECEMBER 5, 1988

AT PRESS TIME

Baseball TV deal nears

ATLANTA—The winner of TV rights for Major League Baseball games is expected to be announced as early as this week during team owner meetings here. Like the Olympics, cable is trying to get a piece of the action. It's been reported that MLB Commissioner Peter Ueberroth wants to present a post-1989 TV rights package to the owners, though no deals had been announced at press time. Robert Wussler, senior executive president of TBS, said Friday that an end to the negotiations is near. CBS is expected to boost its effort to secure baseball rights since it lost the 1992 Summer Olympics. A CBS Sports executive said, "As we bid aggressively for Barcelona, we are certainly going to bid aggressively for baseball."

CNBC signs 2 MSOs

NEW YORK—NBC's Consumer News and Business Channel received two MSO commitments last
(Continued on Page 62)



Photo by Tim Petros

American Cablesystems of California's Larry Lawton holds one of the 2,000 illegal decoders confiscated in the raid.

Record bust

Cable pirates caught in California

By PEGGY ZIEGLER
Los Angeles bureau chief

LOS ANGELES—In what's been described as the largest cable piracy bust in California history, police seized \$1 million worth of illegal cable converters and arrested five men in Sunland, Calif.

Investigators said the warehouse where the raid took place contained a highly sophisticated lab for doctoring converters and had a large map of the United States.
(Continued on Page 61)

'92 Games: Cable eager, stations edgy

By ADAM BUCKMAN
and DIANE MERMIGAS
ELECTRONIC MEDIA staff

NBC's stunning \$401 million capture of the 1992 Summer Olympics rights put cable television in line to get its first Olympics action while leaving NBC affiliates wary about such a move.

Many NBC affiliate executives, who will be asked to shoulder part of the Olympics production costs, said they would prefer the Games in Barcelona, Spain, be an NBC exclusive.

But NBC plans to spin off a portion of the Games to cable for about \$75 million, and sources said SportsChannel America, owned by Cablevision Systems, is the leading candidate.

Industry observers were surprised at the size of NBC's bid, especially since the network's ratings and profit projections weren't realized for its 1988 Summer Olympics coverage, for which it paid \$300 million in rights fees.

Robert Wright, chief executive officer of NBC, said the advertising revenue and ratings generated by the Games four years from now, in addition to the cable package and affiliate participation, will offset the record \$401 million payment.

"Having just done this same thing in Seoul, we feel comfortable enough with our ability to sell advertising at a premium, especially up front, and to produce the games efficiently so that we can

l to open new doors

age 3)
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ideo and the inter-

the venture capital
Siegel, even more

owns Mattel, a major
rtise and LBS dis-
rograming.

d, LBS will appear

remain intact, with
e as chairman of
mpany, LBS Com-
ther, Paul Siegel,

stays on as president of LBS Entertainment, the com-
pany's Los Angeles-based arm.

In New York, Phil Howart will continue to head the
company's ancillary businesses and Jon Nottingham
will continue as head of program distribution.

Eventually, Henry Siegel says that his core man-
agement team will share in the ownership of the com-
pany, and that a possibility also exists for the new
LBS to go public one day.

In terms of the day-to-day operations, Paul Siegel
said the buyout won't have much effect on LBS En-
tertainment.

"But leaving Grey may give the company more op-
portunity to pursue other kinds of ventures," he
said.

One such venture he mentions is the pay-per-view
arena, where the company could expand on its exist-
ing interest in live specials.

Reticent about mapping out future plans for the
company, Henry Siegel said more details will unfold
at the deal's finalization, by the end of this year.

For now, he said LBS will concentrate on upgrad-
ing its existing properties, most notably "Family
Feud" and two animated strips. "Police Academy" and
"The Real Ghostbusters."

Another top priority is to grow the nascent ancil-
lary businesses, which at the moment only account
for a small portion of LBS revenue.

"The industry needs to concentrate on what's out
there now. I'm surprised at the amount of product
that companies are trying to introduce at this time,"
he said. #

ay' set for 're-launch'

chased another show which
launches Jan. 9, King World Pro-
ductions' "Inside Edition."

Mr. Jacobs said more would be
known about the fate of "USA

Today" after stations analyze their
November ratings books.

He said last week that the show
had increased 25 percent in over-
night market rating averages. #

Centel selling cable systems

(Continued from Page 3)

erties, Mr. Goldman said, citing
United Artists Entertainment, Com-
cast Corp. and even Pacific Bell.

Mr. Goldman said shareholders
will probably receive between \$40
and \$50 per share through the sale,
he said.

In explaining the move, Eugene
Irminger, chief financial officer for
Centel Corp., said, "As much as one
year ago, we asked ourselves
whether we could run three or four
businesses. We became darned big
in cellular, and if we want to grow

in cellular and telephone, we picked
our priorities and we decided to
choose cellular."

Centel spokesman Bill White said
the company's decision to get out
of the cable business is no reflection
on its confidence in the industry.

Centel spent much of this past
summer fending off a takeover ef-
fort, which was thwarted.

Mr. Irminger said he expects to
have a deal within 60 days, not-
ing that brokers are already talking
to potential buyers. A closing is ex-
pected in mid-1989. #

"We're not going to be
FCC commissioners who are intent
upon doing their own thing," said
the senator at a legal seminar here
last week. "We want them to carry
out the policy of Congress."

Mr. Patrick is said to be telling
friends that he will be able to stay
on as FCC chairman as long as he
wants. Bush representatives had no
comment on their plans for Mr. Pa-
trick or the FCC chairmanship.

Haines, a 31-year-old Republican
counsel for the House Energy and
Commerce Committee; and Br.
Goodman, 43, a former president
MultiComm, a data telecommuni-
cations firm. #

Adam Buckman contributed
this article.

Record contraband seized in cable bust

(Continued from Page 1)

States on one wall showing various
cable operations and the type of
equipment used by them.

Paperwork seized in the raid indi-
cated that the operation had been
supplying converters throughout the
United States and in the Caribbean,
investigators said.

The bust is also the biggest ever
for American Cablesystems of Cali-
fornia's 6-year-old security opera-
tion, which investigated the Sun-
land case before approaching the
Los Angeles Police Department
with evidence leading to the Nov. 22
arrests.

Police seized 2,000 cable decoders
and converters made by six differ-
ent manufacturers from the A.J.
Services warehouse.

The American operation is one of
a handful of in-house security opera-
tions that multiple system opera-
tors have launched to battle the
problem of signal theft.

American's operation has been re-
sponsible for at least 50 arrests in
the 1½ years since it added four
field investigators, said Larry Law-
ton, vice president of regional ser-
vices for American.

The field team works under cover,
investigating tips and setting up its
own "sting" operations to buy de-
coders from suspects. The team has
several locations in Southern Cali-
fornia where investigators can allow
suspects to install illegal hookups,
Mr. Lawton said.

The team turns over videotapes
and other evidence to law enforce-

ment officials when there's enough
material to make an arrest, he said.

Mr. Lawton said the current case
came about after his field investi-
gators spent six months tracking down
a lead from a cable operator in the
San Fernando Valley area.

After the cable system contact-
ed the suspects, Juan Pagan, supervi-
sor of American's field investigators,
made two small buys from one of
them.

The team trailed the suspect to
the warehouse location and several
other locations in the area, then
supplied the information to a Los
Angeles Police Department task
force.

On Nov. 22, Mr. Pagan, wearing
wire supplied by the LAPD, met
with three of the suspects, ostensibly
to purchase \$27,000 worth of
converters.

When the suspects tried to change
the location of the exchange, the
police moved in and arrested them,
Mr. Lawton said.

Mr. Lawton, a retired police officer
and licensed private investigator,
said the 2,000 converters cov-
erscated at the warehouse appeared
be about a month's inventory for an
alleged piracy operation, based on
information from records seized in
the raid.

Those arrested were: Brian G.
Robert Taylor, Scott Ireland, Dan
Horton, and Carl Hoffman.

The five suspects in the Sun-
land case could face jail terms, state
federal parole and fines of up to
\$25,000 per count. #

arrived at a delivery of a shipment in a Fairfield, CT, parking lot. *Cablevision* estimates that Mr. Weitz's purchases have cost the company more than \$1 million in lost revenues when spread over the five-year life of the contract, according to Mr. Asarnow. He said the company is planning to file a civil suit against Mr. Weitz to recover lost revenues.

Authorities are looking into the source of the illegal merchandise. Mr. Asarnow said further action on the case and other illegal

REVIEWS

[illegible]

Feds Prosecute CT Man For Altering Cable Boxes

By Larry Jaffe

HARTFORD, CT—A local businessman was charged last month with unlawfully altering cable television converter boxes to receive pay services for profit.

The case represents the first time in the state that an individ-

ual has been charged for unlawfully acting under the 1964 federal cable act by the U.S. attorney's office in Connecticut.

The filing of criminal information against Gerald Robert, owner of a TV/appliance store, was the culmination of several months' investigation by United Cable

Television's Audit Society Department working in conjunction with the Federal Bureau of Investigation.

The charges are alleged to have occurred Oct. 23 and Dec. 1, 1986. The charges against Mr. Robert were filed by the U.S. attorney's office Dec. 12.

"We received reports from our sales people of a problem selling service in certain parts of our franchise," said James Allen, secretary manager for United Cable, which serves more than 135,000 subscribers in 21 communities in the greater Hartford area.

"People already had cable service and connections. We asked why and how they got it if we don't have them listed as customers. They kept referring to an operation doing business as a TV repair store in downtown Hartford," Mr. Allen said.

An investigation revealed that Mr. Robert allegedly charged \$30 per converter to alter the service to receive the pay channels Home Box Office, the Paying Channel,

and the Paying Channel.

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The Paying Channel, the Disney Channel, Showtime and SportsChannel.

"The cable company has not yet determined whether to file charges against individuals who took Mr. Robert's service."

Mr. Robert, owner of Star TV Service, pleaded not guilty to the two counts Dec. 23, 1986. He admitted to *MultiChannel News* that he knew how to alter converters by moving a computer chip, and once in a while did so for relatives and friends, but vehemently denied doing it for financial gain.

"I wasn't paying from it. I'd charge about \$10 for any time. I never broke the seal on a cable box because it says right on it that that's illegal. But if a customer came in and the seal was broken or the customer broke the seal in the store, I would show them how to move the chip over. If the customer was paying for one pay channel at \$12 a month, now he could get five channels," said Mr. Robert, who has been repeating allegations for 32 years.

He said he learned how to alter the boxes by "playing around with it." Mr. Robert added he has been a United Cable subscriber for the past five years and "always paid for it. I got no channels. I'm not supposed to get."

Mr. Robert turned his prosecution by federal authorities to "entrapment," in which the undercover agents "never gave me a chance to do it" (alter the box).

Mr. Robert also said he had never sold converter boxes because he knew that it was illegal.

According to Mr. Allen, the investigation found that Mr. Robert "apparently had access to converter boxes."

The trial is not expected to begin in federal court before February, according to Stanley Tenny Jr., U.S. attorney for the district of Connecticut.

It is unclear, Mr. Robert could face one year in prison and a \$25,000 fine on each count.

Mr. Tenny stressed it is the government's burden to prove Mr. Robert's guilt beyond a reasonable doubt.

Michael Dorfman, Connecticut Cable Association executive director, said the case resulted from cable industry groups, such as the Office of Cable Signal Theft in Washington, D.C., and operators, "taking precautions about the problem."

PROGRAM NOTE: NOSTALGIA CHANNEL

The Nostalgia Channel will present / Starz Condemned (1939), starring Laurence Olivier, Henry Baur and Penelope Dudley Ward, in March.

170 Systems Sign For PPV Event Wrestlemania II

NEW YORK CITY—The World Wrestling Federation has commitments from 170 cable systems with 2.8 million addressable subscribers to carry its Wrestlemania II pay-per-view event, according to WWF parent Titan Sports.

A Titan Sports spokesperson said affiliate commitments for Wrestlemania II, to be satellite-delivered Apr. 7 from three cities, will be available to more addressable subscribers than any previous single PPV event, surpassing the *Ghostbusters* offering last year. Still clearing affiliates, Titan Sports expects to reach three million addressable subscribers, according to WWF sales rep Chester English.

This number would triple the reach of the March, 1985, Wrestlemania I, which obtained penetration levels close to 10 percent. But a subsequent WWF pay-per-view event fell below Titan Sports' penetration expectations, achieving 3-3.5 percent of subscribers on about 100 cable systems.

Mr. English said the Wrestlemania II card would feature Mr. T at Nassau Coliseum outside New York, Hulk Hogan in Los Angeles and a "Battle Royal" in Chicago matching superstar teams of Titan Sports celebrities and players from the National Football League.

Though Mr. English would not disclose the superstar participants—expected to be announced in a Mar. 4 press conference telecast from all three cities—he said the NFL superstars "would obviously focus on the Chicago market." Press reports on Wrestlemania II have said the Bears' William "The



Photo by Jim Lorch

RESPONDING to questions at a seminar on new communications technologies last week are New York Times Co. vice president, cable David MacDonald (right) and Cablevision Systems Co. vice president Reese Schonfeld. Mr. MacDonald predicted overbuilds in areas with classic systems (see story, p. 28).

Refrigerator" Perry is expected to be on the Apr. 7 card.

Wrestlemania II will be distributed via Satcom III-R as will this week's press conference announcing lineups and offering video footage for affiliate promotional purposes.

Mr. English said revenues from the event will be split 50/50 between WWF and its affiliates. The event is being offered for a suggested retail of \$15.

Affiliates that have made verbal commitments to the second wrestling event include systems owned by Group W Cable, Sorer Communications, Vision Cable, Telecable and NewChannels,

according to Titan Sports (see *Multichannel News* Feb. 10, 1986, p. 30). □

'Multichannel News' New York Office Moves

NEW YORK CITY—*Multichannel News*' New York bureau is moving, effective Mar. 3, to the main office of its parent, Fairchild Publications, at 7 E. 12th St., New York, NY 10003.

Editorial staff telephone numbers will remain the same: 212-741-6208/4031/4063, but the advertising lines will switch to 212-741-7825/7826. □

Myhren Memo Outlines Plans For ATC Performance Review

By Peggy Ziegler
Entertainment Editor

DENVER, CO—American Television & Communications Corp. chairman Trygve Myhren warned senior management in January that ATC's corporate review is likely to result in "some 'downsizing' of our overall organization," according to a company memo obtained by *Multichannel News*.

The Jan. 21 memo also set forth a so-called "target overreach goal" of 40 percent for the Performance-Plus review, a company-wide performance analysis now underway in ATC's corporate headquarters and three divisions (see *Multichannel News*, Feb. 24, 1986, p. 1).

ATC spokesperson Jim Duffy said the 40 percent figure referred to in the memo is "an arbitrary number assigned to everybody to look at so we don't overlook anything" in the review process. He said neither budgets nor staff are expected to be reduced by 40 percent, and he said such target overreach goals are common in the corporate reviews on which the ATC Performance Plus plan is modeled.

The evaluation involves assigning dollar values to the functions and output of various departments and relating that back to the area's overall budget, Mr. Duffy said.

While the target figures arrived at in this manner will be dollar amounts, the memo told managers the 40 percent figure was not "an actual performance improvement objective" but rather "purposely designed to expand and stimulate thinking."

"It is expected that many of the ideas using a 40 percent target will be too risky to implement, but we need to use an imagination-expanding target so that we do not miss any creative Performance Plus ideas," the memo said.

Mr. Myhren said the activity analysis program may result in layoffs at ATC. He told the managers the company will attempt to take advantage of normal attrition to redeploy employees "identified for displacement" to other positions in the firm.

He also said ATC will provide a liberal severance package for others for whom new positions aren't found. The company has set up a human resources committee to handle "employee issues" resulting from the review process, according to the memo.

The Performance Plus review, according to the memo, started in Denver Feb. 6 and 7 and will be completed by June 30. The assessment program is divided into two stages, with the second

in the remaining ATC divisions in April.

The memo described the review process as a "powerful bottom-up" analysis that will involve all management and staff in the assessment process. The results of the study will be incorporated into the company's 1987 operating budget.

Mr. Myhren said the plan had been in the works for some time and was not related to Time Inc.'s request that ATC trim \$6.5 million from its 1986 budget. □

PSC Allows Cable Lower Conduit Rate Than Utilities Pay

WASHINGTON, D.C.—Reportedly for the first time, a local public service commission told a cable system it could pay conduit rental fees lower than those paid by electric or other utilities, according to cable system officials watching the decision.

The PSC here Feb. 26 ruled that local franchisee District Cablevision Inc. would pay \$1,584 per mile per year, or 30 cents a foot per year, a rate much lower than what other conduit users pay Chesapeake & Potomac Telephone for the same space. The rate itself was immediately found acceptable by DCI and officials for its parent, Telecommunications Inc.

But the PSC also ruled that rate would only be guaranteed only for the first three years a particular conduit was used, officials said.

"What we want basically is a certitude of rates," said John Sie. TCI senior vice president overseeing the franchise here. "Unpredictable duct rates is not satisfactory," he said.

The PSC rate was significant to the industry, he said, because previously conduit rates for cable were based on the same rate the other conduit users paid. □

Firm Agrees To Stop Selling Boxes FTC Says Are Used for Cable Theft

WASHINGTON, D.C.—C&D Electronics Inc. of Michigan agreed not to sell equipment allegedly used for unauthorized reception of cable service and signed a proposed consent decree and cease-and-desist order with the Federal Trade Commission, FTC officials announced last week.

In its complaint made public Feb. 24, the FTC charged that "decoders, descramblers, converter-decoders and converter-descramblers sold by (C&D Electronics) were designed and have been used to allow the unauthorized

transmitted by cable television systems operating throughout the U.S."

The sales of C&D Electronics' cable equipment meant lost or potentially lost revenues to cable companies, the FTC complaint said. "As a result, legitimate cable subscribers pay higher prices for cable service or receive reduced services from the cable companies. In addition, municipalities granting the franchises . . . receive reduced franchise fees from the cable companies to the detriment of all consumers in the municipalities," the complaint

C&D Electronics officers David Barwacz and Larry Bostelaar also were named in the complaint.

Characterized by the FTC as a "major source of unauthorized cable television decoders illegally sold," C&D Electronics is located in Jenison, MI. It sold its items by mail order.

The document is for settlement purposes only, the FTC said, and does not mean C&D Electronics admits to violating federal law.

The proposed consent decree now is open for public comment until Apr. 28 after which the FTC will decide whether to make it

Times Mirror To Discontinue Videotex Trial

LOS ANGELES—Times Mirror Co. said it will discontinue its consumer videotex service, Gateway, this week.

"The reaction among customers, while gratifying, was not sufficient to warrant full-scale development of Gateway as an ongoing business," said James L. Holly, president of Times Mirror Videotex Services.

The videotex test was launched

Turner

Continued from page one

deal. DBL said it would use its "best efforts to secure financing on a timely basis." Earlier skepticism on Wall Street about Turner's ability to finance the deal had held the MGM/UA stock to \$24.12 that day.

DBL will examine the TBS/MGM transaction for about five business days before it would issue a letter saying it is "highly confident" it can do the financing, according to Michael Brown, a managing partner at DBL, which has a history of attracting investors to high-yield "junk" bonds. DBL earlier was retained by MGM/UA to prepare an offering statement of assets for sale.

Moody's Investors Service last week said it is reviewing for possible downgrade the debt rating of some MGM/UA securities, noting the review was triggered by the definitive agreement between TBS and MGM/UA.

TBS, whose chairman Mr. Turner had promised a proxy fight for CBS two weeks ago, quietly announced last week that it was withdrawing its offer for CBS as a result of a failure of a condition in its bid. That failure of condition occurred when CBS successfully completed its self-tender offer for 21 percent of its stock. TBS' \$4.5 billion takeover bid for CBS was comprised of a package of stocks and "junk bonds." That failed takeover bid cost TBS about \$18 million. When TBS tendered its shares to CBS in its buy-back, the company made a profit of about \$1.2 million.

The MGM/UA deal, which also contains options for TBS to buy MGM/UA common stock from both the company and from principal stockholders Tracinda and Kirk Kerkorian, MGM/UA's principal stockholders, is subject to approval by MGM/UA stockholders and all requisite governmental and third party approvals. If successful, the merger is expected to be completed by mid-Oct. □

JNEL Offers Device To Allow VCR Taping Off Cable Channels

MANSFIELD, MA—A device to allow untended videocassette recording from cable TV channels has been introduced by JNEL here.

Using infrared technology to link an infrared cable converter/descrambler with a VCR, the unit, called CableMaster, can permit automatic, untended recording on up to eight cable channels over a 14-day period, JNEL said. CableMaster is currently compatible with only infra-

red converters, of which JNEL estimated there are 15 million in use now.

JNEL said CableMaster adapts to "virtually all" major brands of the boxes by use of a changeable "personality module"—a cartridge that fits in the CableMaster unit.

Suggested retail for CableMaster equipped with one personality module is \$139.95, although a spokesperson said that price was expected to be lowered shortly to \$99.95.

Boxes with which CableMaster is compatible are: Hamlin CRX-5000 and -6000; Jerrold 400, 450, LCC-58 and LCC-91; Magnavox Magna-6400; Oak RTC-56 and RKDM-400; Pioneer BA series and BC-4130; Radio Shack Archer 15-1285; Regency RO3 series; Scientific Atlanta 8500 series; Sylvania 4040; Teknika 6510; Texcan TRACS; Tocom 5503; and all Zenith units. □

USA, ESPN Sign Deals to Carry Pro Wrestling

NEW YORK CITY—Both USA Network and ESPN have wrapped up new deals for pro wrestling packages.

After months of negotiations, ESPN inked a contract last week with the American Wrestling Association. The AWA will produce 90 minutes of weekly wrestling action for the sports network and ESPN and the AWA will split advertising sales. Terms of the deal were not disclosed.

The deal gives ESPN its first wrestling programming. The network will show the program Tuesday at 8 p.m. (ET), starting Aug. 27, as part of its new "Slams & Jams" entertainment theme night. An hour of roller derby action will follow at 9:30 p.m., thanks to a new deal with the International Roller Derby League.

In the meantime, USA has signed a new contract with the World Wrestling Federation which gives the network exclusive rights to WWF events through Sept., 1987, effective immediately. Jim Zrake, executive sports producer for USA, said the deal gives USA first refusal rights for any WWF cable programming, with the probable exception of pay-per-view.

Mr. Zrake said USA will continue with its three weekly wrestling programs produced by WWF. The three shows garner Nielsen ratings between 2.5 and 4.0, the highest on USA.

No terms of the deal were disclosed. WWF, the most prominent wrestling league, had also been negotiating with ESPN and turned down an exclusive deal with WTBS in the spring. □

Indictments Passed Down In MI Pirate Decoder Case

By Kathy Clayton
Assistant Editor

GRAND RAPIDS, MI—Federal grand jury indictments were handed down here Aug. 7 charging theft of cable service and violations of copyright laws of videocassettes.

This is the first federal case brought forth since the passage of the Cable Communications Act of 1984, according to FBI supervisor of the Grand Rapids office Gene Debbaudt and cable investigator George Lang. Mr. Debbaudt said the FBI became involved in the investigation after learning about the violation of the federal law, passed late last year. Mr. Lang was hired by Fetzer CableVision of Kalamazoo, MI, to investigate the illegal operation.

Mr. Debbaudt said Marty Moran was indicted on charges of unlawfully selling copyrighted videotapes and also altering decoder boxes and selling those converters. Mr. Debbaudt said that FBI agents seized at least \$155,000 in cassettes, decoders and equipment used to alter the boxes. He said 710 converter boxes were recovered, mostly Oak M35 and V26 converters. He said a few Zenith converters were also confiscated.

Both Mr. Lang and Mr. Debbaudt said this is a precedent case since it is the first case to be tried under the cable act.

The accused must now appear before a magistrate and enter a plea. The case should go to trial in about 70 days, Mr. Debbaudt said, citing "quick-trial" statutes.

Mr. Debbaudt could not comment on whether this case is involved in national theft rings, but he did say the FBI is continuing its investigation and is looking at all aspects of the case.

Two others have entered guilty pleas in connection with the case, according to Mr. Debbaudt. One was involved only with the videocassettes, while the other was involved in both the illegal videocassettes and illegal decoder boxes. The two will now face sentencing, Mr. Debbaudt said.

Mr. Lang said Fetzer CableVision contacted his company, Office of Professional Cable Standards, after finding a large quantity of illegal decoder boxes in the system.

Mr. Lang went to New York and purchased some boxes undercover, he said. Mr. Debbaudt said the purchases were legal, but the boxes were then retrofitted to match Fetzer's boxes. The boxes Mr. Lang bought were old converters from Manhattan Cable, Mr. Debbaudt explained.

Don Curley, vice president and general manager for Fetzer, said

his company had conducted an internal investigation for about a year before contacting Mr. Lang. He said he estimated that between 4,000 and 7,000 illegal boxes were in the field at the time of the investigation.

Fetzer recently upgraded its system to make it addressable, and Mr. Curley said the Kalamazoo system is using Oak TC 56 boxes currently. He said he thought it was no problem for the pirates to reconfigure the illegal boxes to fit the legal ones in the field, but quickly added that he thought the pirates probably had the "know-how" to retrofit most all converters. Fetzer has subsequently, among other things, rearranged its scrambling techniques to deter customers from using the illegal converters that may still be in the field. □

Warner Amex To Sponsor Charity Effort

DUBLIN, OH—Warner Amex Cable Communications Inc. will serve as national sponsor of the annual Muscular Dystrophy Association campaign, according to chairman and chief executive officer Drew Lewis.

Last year, Warner Amex was the largest cable contributor to MDA, according to Mr. Lewis, with more than \$250,000 donated.

Warner Amex is to launch a four-week fundraising campaign beginning Aug. 12 through the Jerry Lewis Labor Day Telethon, with more than 100 systems participating.

Throughout the campaign, Warner Amex will donate a portion of cable installation or upgrade fees to MDA. Local systems will supplement the campaign with their own fundraising efforts. □

Brooks Satellite Agrees To Buy Dish Distributor

MATAWAN, NJ (DJ)—Brooks Satellite Inc. said it reached an agreement in principle to acquire Intercontinental Products Corp., a distributor of earth stations to dealers in the western U.S.

Under the proposed terms Brooks Satellite would issue about one million shares in exchange for all of the outstanding shares of Intercontinental Products, constituting about 30 percent of Brooks' shares which would then be outstanding.

Brooks said Intercontinental Products would operate as a subsidiary. □

Multichannel News

1985 Multichannel News
A Fairchild Business Newspaper
Published every Monday by a Unit of
Fairchild Publications, a Division of Capital
Cities Media, Inc.



MULTICHANNEL NEWS is published
weekly (51 times) for the Cable TV, Pay TV
and MDS industries

GENERAL EDITORIAL OFFICE: 300 S
Jackson St., Denver, CO 80209-3194
303-733-6397

THOMAS P. SOUTHWICK
Editor

STEWART SCHLEY, Managing Editor
JOE BOYLE, National Editor, 212-741-6208
PEGGY ZIEGLER, Entertainment Editor,
212-912-0629
KATHY CLAYTON, Assistant Editor
STEVEN LIEBMAN, Editorial Assistant

BUREAU OFFICES

ATLANTA: ANNE DUKES, Bureau Chief,
404-533-8461, 37 Executive Park South,
N.E., Atlanta, GA 30329
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WASHINGTON, D.C.: J.L. FREEMAN,
Bureau Chief, 202-682-3229, 1333 H St.,
N.W., Washington, DC 20005

FAIRCHILD NEWS SERVICE
HONG KONG: Paul Ehrlich, 1260 New
Mercury House, 22 Fernhill St., Phone
5 282791
LONDON SW1: Jim Fallon, 8 Boulevard St.,
Phone 353-8125, Marybeth Kerrigan,
Associate
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03-293-9051

Correspondents in Bogota, Bonn,
Brussels, Buenos Aires, Cape Town,
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Publisher

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PRODUCTION DIRECTOR: JENNY TRIAX
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CITY OPERATIONS:
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Cracking the Ring

The FBI joins forces with MSOs to combat a cable theft ring that could be active in five states.

By Richard Tedesco

Federal authorities are now investigating cable pirates who are part of a national network of individuals reportedly involved in a range of criminal activities.

In addition to illegal trafficking in descramblers and converters, these individuals may also be involved in trafficking drugs. And the pirates apparently have a ready pipeline to major MSOs for purchasing new cable equipment, according to cable investigators.

The Federal Bureau of Investigation seized more than 900 boxes—232 decoders and 702 converters—at four locations in Kalamazoo, MI in May.

The action is believed to be the first FBI involvement in investigation of illegal cable converter activities.

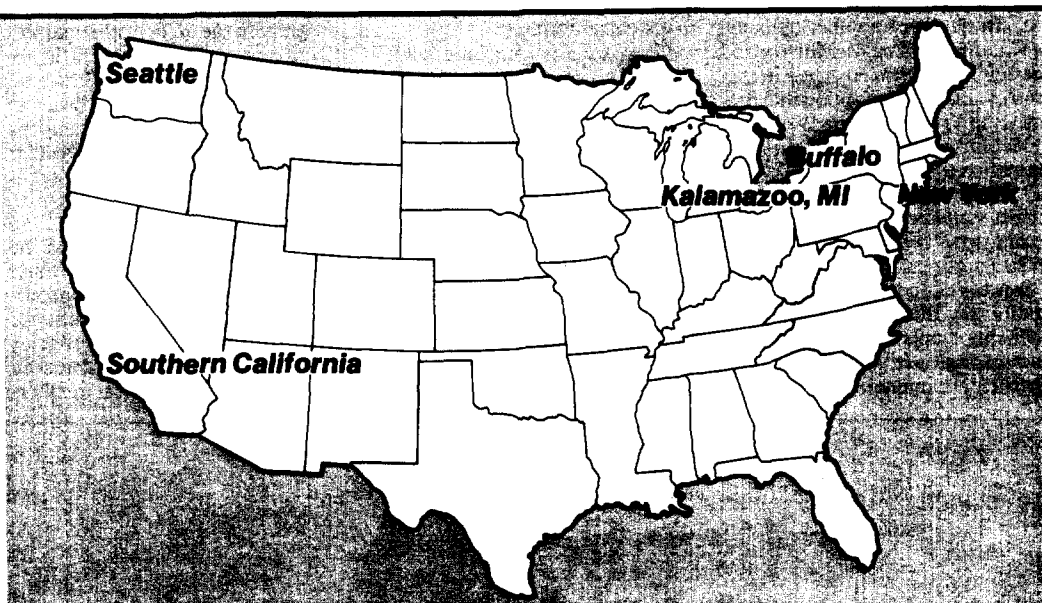
The Kalamazoo boxes, originally believed to be stolen, were actually sold in New York and then transported to Kalamazoo for modification to permit use in the local cable system operated there by Fetzer CableVision, according to special FBI agent Eugene Debbaudt.

The FBI also seized business records containing names of people with whom the Kalamazoo group did business. And the implication is clear that the trail of records may lead beyond Kalamazoo.

"Our intelligence shows that there is a network of people operating with this equipment," says Debbaudt. "The investigation that remains is an effort, first of all, to establish the nature and scope of the operation."

The trail from Kalamazoo leads at least as far as Seattle, where Group W and Viacom joined forces in June to gain a preliminary injunction against 12 individuals who allegedly have been illegally selling decoders and converters. Sources close to that investigation report that the FBI was gathering information from Seattle.

While the FBI would not confirm any connection between Kalamazoo and any other case, sources close to both investigations further indicate that there is a direct connection. Marshall Nelson, an attorney representing both MSOs in the Seattle case, flatly states that the evidence of a network is there. "There are definite indications of national tie-ins," he says. "A number of our



The map above pinpoints locations allegedly involved in the illegal equipment traffic outlined in the accompanying story, including New York, Buffalo, Kalamazoo, MI, Seattle, and Southern California.

defendants have contacts around the country."

Sources close to the Seattle case indicate that those defendants have also been involved in other criminal activities, including drug-related activities. Investigative sources also indicate that the trail of illegal drugs and descramblers leads to a major source of cable equipment in Southern California.

Oak M35 decoders were part of the cache in Kalamazoo, and were also in circulation in Seattle, where they could be used on the Viacom system. Addressable Jerrold boxes were on the black market there for use in the Group W system, according to Laura Liswood, district manager for Group W.

Jerrold is cooperating in the action against the defendants, whose business was netting \$8-10 million annually, according to the operators. Jerrold director of security Ronald Putnam confirms the California connection in the case. "The distributors in Seattle are the head of a network centered in Southern California," he says.

Putnam also confirms information from other investigators and one electronics dealer in Seattle that new equipment is improperly routed into the "grey" cable market by MSOs who sell their overstock.

An investigation currently under-

way in Buffalo is also tied to southern California, according to Putnam. Thus far, the local investigation in Buffalo centers on an influx of illegal boxes from Canada, according to Mickey Ross, vice president of operations for the Cablescope TCI system there.

The most striking elements about the investigations in Seattle and Kalamazoo are the unprecedented involvement of the FBI and the impunity with which allegedly illegal activities were conducted.

The FBI's initial interest in the Michigan case was spurred by the information from Fetzer Cable Vision that the thousands of illegal boxes it believed to be circulating were stolen goods, according to special agent Debbaudt. They were not, in fact, and the FBI sent an undercover operative, George Lang, to New York at one point to purchase 650 boxes. "You or I could probably go to the company in New York and buy one," Debbaudt comments.

Like Buying Narcotics

The M35 boxes in Michigan had originally belonged to Manhattan Cable TV, according to search warrants issued in the case. Boxes bought for \$7-10 apiece in the "grey" market from used equipment dealers could bring up to \$240

apiece on the West Coast, according to Lang. By his own account, Lang has made large purchases in undercover investigations on several occasions. "It's nothing to get into the \$25-30,000 range," he says, "and when you're working undercover with something like this, it's just like buying narcotics."

In Michigan, the FBI was also interested because the case also focused on pirate videos—nearly 2,500 that were netted in the May raid, along with more than 200 movie reels, VCRs and other equipment used to produce them, according to Debbaudt.

At presstime, no arrests had yet been made in Kalamazoo. One of the prospective defendants, Ken Losey, proprietor of Ken's Two-Way, an electronics shop that produced 100 cable boxes in the FBI raid, claims he was set up by Fetzer Cable Vision.

He says he was approached by another distributor, who he declines to identify, to repair boxes for Fetzer. "I was led to believe they were legal. I just presumed they wanted to fix them for some other system," says Losey, who claims he was told they were headed for California.

But he also confirms that they were marked with the Manhattan Cable logo. He says he did not know whether the boxes he was fixing

came directly from Manhattan Cable and he only knew his contact at Fetzer by a first name. When initially responding to an inquiry about whether he had any boxes for sale, he replied, "I used to have a connection in New York, but the FBI raided us."

Meanwhile in Seattle, Jerrold boxes are quite openly available at Video Electronics International, Inc., an electronics outlet operated by K.L. McMurtrey. McMurtrey had been enjoined from engaging in that kind of activity in an action that predated the Viacom/Group W case.

McMurtrey contends a previous injunction against him was solely for sale of Oak equipment and describes suppliers like himself as just decent small businessmen trying to make a profit.

Sources close to the Seattle investigation say that McMurtrey was in fact being supplied by one of the defendant ringleaders. Beyond seeking a permanent injunction in the case,

Marshall Nelson has indicated he plans to file new papers in the case.

Buying MSO Overstocks

McMurtrey claims he has been trading for four years in up to 18 different models of descramblers and converters, some of which he can obtain brand new from overstock at major MSOs, including one major eastern source.

He says the overstocking is intentional, and so are the sales. "They know who they're selling to," says McMurtrey, who proudly identifies himself as one of 200 names Jerrold maintains on a list of active pirates. His claim is confirmed by Putnam at Jerrold.

But along with McMurtrey, the defendants in the Seattle case were easily discovered because they openly advertised their wares in area newspapers. While the dozen persons named in the present injunction, including Robert Wise,

Ronda French, John Diego, Frank Watson, Richard Veig, Christopher Chick, Miguel Mejia and reported ringleaders Ronald Chick and Gary Alexander, have been stopped by court order, sources in Seattle say the advertising has not stopped.

Bill Lilly, regional vice president of operations for Viacom, says that results of an amnesty program suggested that there was a continuing program in the area. And group W's Laura Liswood says the traffic became obvious between the advertising and the appearance of boxes in electronics stores and flea markets. Lilly says he doesn't know whether there's a network, but Liswood is certain of the scenario.

"Clearly when you find that the boxes are coming from around the country, that's the tip-off that these people are in contact with people from around the country," she says.

Jerry Poth, a private investigator retained by both cable operators in the case, reports that serial numbers

on boxes were traced to different parts of the country. Jerrold's Putnam says he has traced more than 400 illegal converter units in the last year. Based on Seattle and other instances of piracy, Poth, too, is convinced that the network is quite real. "I also see reliable information that tells us there are hundreds of boxes coming from different places."

The idea of MSOs as a source, one way or another, is also supported by the evidence in the Seattle case. Laura Liswood reports that the discover of new pirate boxes prompted the suspicion that they had come from other systems and that "they were obtained under less than desirable circumstances."

Anyone who doubts the ready availability of virtually any descrambler or converter on the market today need search no further than the classified ads of a major weekly cable trade publication which recently carried items touting the Oak M35, along with other brands. Phone calls made to two California suppliers in the ads revealed that equipment in stock could be ordered in almost any quantity.

No attempt was made by the proprietors to establish the identity of the caller, who identified himself simply as a small cable operator in New York. Custom ordering of Oak and Jerrold descramblers not in stock was possible, and the caller was told that the equipment could be shipped immediately upon receipt of a certified check.

An amnesty program helped demonstrate the extent of the "grey" cable box market in Kalamazoo, but it would probably not have taken long to discover that several thousand illegal boxes were in the system, as Fetzer vice president and systems manager Donald Curley now estimates.

Initially Curley says he could not interest the understaffed local authorities in the case, so he hired a private investigator. While the boxes may still be around, a major part of the network may have been disrupted. "We also found an individual who was one of the major video pirates in the Midwest," says Curley.

Whether the current investigations in Kalamazoo and Seattle start a chain reaction of investigations in other places, or uncover kingpins of the piracy network, remains to be seen. According to reports in the Seattle Times, defendant Gary Alexander describes himself as the "granddaddy" of Seattle cable pirates. He also reportedly said of converter piracy: "Federal judges and God himself could not stop it... unless he struck you with lightning." CM

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**THE GREAT
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Companies Pursue Cable TV 'Pirates'

By LISA BELKIN

THE television was on in the apartment on the Upper West Side when the screen became fuzzy. The viewer flipped the antenna, turned the set on and off, then gave up and left for work.

"I thought it was somebody vacuuming," he said. "I thought it would correct itself."

It didn't. When he opened his apartment door he found an envelope from Manhattan Cable Television containing a glossy pamphlet. "During an audit of our system," the red and black print said, "our instruments then indicates that you are receiving our signal. Our records, however, indicate that you are not a paying subscriber of Manhattan Cable."

"We want to make it easy for you," the pamphlet continued. "No questions asked. Call M.C.T.V. Credit and Collections and we will connect you legally with no connection charge."

For more than a year, cable companies in the New York metropolitan area have been seeking out illegal users, cutting off their connections and persuading them to become legitimate subscribers. Some, like Manhattan Cable, are offering to waive penalties and installation fees for those who return their wry. The effort, officials at area companies say, has begun to pay off.

"People are beginning to learn we mean business," said Donald Minton, president of Group W Cable in Manhattan and chairman of the theft of service committee of the New York State Cable Television Association. "There's a lot more recognition that this is theft, and if you are stealing we will find you."

Theft of service has been a problem for cable television companies for as long as the industry has existed. The New York State Cable Television Association estimates that of all the homes that can receive cable, between 10 and 20 percent are using it illegally. Cable company operators in the state have \$90 to \$40 million in revenues a year to signal thieves, the association says.

"It's as if you walked into a store, picked up something and walked out with it," said Nathan Garner, vice president of corporate affairs for Manhattan Cable Television. "People who would never do that seem to think it's acceptable to do this."

Last year, the New York State Legislature made the theft of cable services a Class A misdemeanor, punishable by a fine of up to \$1,000 and up to one year in prison.

Both Mr. Garner and Mr. Minton said their companies have not yet prosecuted a case in court, though

both have reached out of court settlements with illegal users.

Before companies can consider prosecuting illegal users, they have to find them. Cable company officials are reluctant to talk about exactly how they track down thieves, but the information they will release indicates that different companies use different methods.

Mr. Garner of Manhattan Cable said his company traces illegal use electronically from the point at which the cable signal enters each building, not each individual apartment or television set. Manhattan Cable Television, has a staff of technicians — he would not disclose the number — assigned full time to finding illegal users.

Most companies, however, do not use such technology. "We cannot do it electronically, we can only do it physically," said Mr. Minton of the Visual Inspections his employees conduct on a regular basis. "You have to see that there is a wire going into someone's home and you have to cut it."

"We're checking every single pole in our area, that's how we're doing it," said Michael Giampetro, general manager of Dimension Cable Services of Riverhead, L.I. "We compare what we find to our billing records and disconnect those who aren't paying customers."

Mr. Giampetro, said that of the 5,525 connections inspected over the past 12 weeks, 590 were believed to be illegal. During the next 18 months he said he intends to find and disconnect all illegal installations.

Once an illegal user is found, companies have the right to prosecute for theft of service, but rarely do.

"We don't want to prosecute people," Mr. Minton said. "We want to make them paying customers."

Manhattan Cable and other companies, Mr. Garner said, are using the lists of illegal users as a mailing list. People on it are contacted and offered the chance to subscribe to the service legally or sign a pledge never to use it illegally again. Although he would not release any figures, Mr. Garner said most sign up. Some "heel gully," he said, and others have television reception that is so poor without cable that they have no choice.

The viewer on the Upper West Side is now a legal cable customer, and his reception is back to what it used to be. He is paying \$11.75 a month for Manhattan Cable's basic service. A friend hooked him to the system in the first place, he said, and "I never thought I was really doing anything wrong."

The Washington Post

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THURSDAY, MAY 17, 1984

Higher in Areas Approximately 75 miles
From Station of Columbia Gas Box on A-2

Cable 'Piracy' Said Costly to New Industry

By Michael Schrage
Washington Post Staff Writer

The cable television industry is losing more than half a billion dollars a year in potential revenue because of illegal hook-ups, according to a top cable television programming executive.

Describing such theft of service as "telefelony," David J. Schreff, director of affiliate marketing for the Showtime cable programming network, asserted that "the problem is over \$500 million a year and growing and it's affecting the quality of our service as well as our revenues."

The "cable piracy" problem is seen as particularly painful to the industry at this time as the rate of new subscribers in established systems is leveling off and the market penetration of pay television services hasn't been as high as many in the industry had predicted.

Showtime has recently participated in cable theft surveys in four states—Florida, New Jersey, Texas and Nebraska—and "a pattern is emerging," says Schreff. "Most cable operators estimate that the amount of theft is somewhere between 10 percent to 15 percent of total revenues."

To actually measure the extent of

illegal hook-ups, several cable systems have instituted "amnesty programs" similar to those offered by public libraries that offer a limited grace period to return overdue books with no questions asked and no fines imposed.

"For a limited time, they have the chance to bring in the tampered converter [the attachment that enables television sets to receive cable programming], with no risk of prosecution," says Schreff.

In an amnesty program in San Diego last year, the cable operator recovered more than 13,000 tampered converters and received more than \$1.5 million in new pay television subscription fees. A similar program in Tampa got "twice the response the average direct mail marketing campaign would have gotten," says Schreff.

The results from these amnesty campaigns, along with the operator's theft estimates, form the statistical basis for Showtime's contention that, conservatively, the industry is losing more than \$500 million a year. There are currently more than 25 other amnesty programs under way in cable systems around the country.

"Using just standard public relations and marketing tactics," says Schreff, "I think up to 50 percent of the losses could be recovered."

Different cable systems have different means of protecting their programming, according to William Riker, the National Cable Television Association's director of engineering. In some systems, a subscriber to the basic cable service can gain access to the pay television programming such as Showtime and HBO by tampering with the scrambling device in the converter. "Or they can buy or build a pirate descrambler," says Riker.

According to one cable pirate, such devices can be purchased for under \$100 dollars and are readily accessible "if you know the right engineers."

Other cable systems have special "traps" located outside of a home or apartment complex that scramble the pay signals. Those, too, can be adjusted to permit illegal viewing, says Riker.

HBO kid collared

Pa. man charged with operating what could be biggest theft of service ring ever

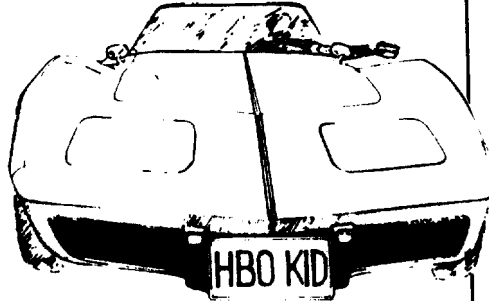
SCRANTON, Pa.—The Pennsylvania attorney general last week charged a local man, who called himself "the HBO Kid," with running a theft of service ring authorities claim the biggest ever prosecuted in the cable television industry.

Frank Cardamone, 23, of Taylor, Pa., is accused of theft and conspiracy. Pennsylvania Attorney General LeRoy Zimmerman said Cardamone ran the ring like a legitimate business. According to a spokesman for Zimmerman, Cardamone went as far as to distribute HBO Kid business cards. Cardamone owns a Corvette with license plates labeled "HBO KID," state authorities said.

Cardamone turned himself in at the regional state police barracks. After being charged, he was released pending an April 26 court date.

Cardamone could not be reached for comment. Local newspapers that were able to contact him said he would not answer any questions on advice of his attorney.

Zimmerman estimated that Cardamone's ring was responsible for \$2.5 million worth of theft of service over the past five years from Adams Cable TV, Blue Ridge Cable



TV, Northeast Cable TV, Service Electric and Vetro Cable TV. If convicted, he faces up to 14 years in prison and \$30,000 in fines.

Police said Cardamone sold 2,700 illegal converters for \$100 to \$125 throughout Northeastern Pennsylvania. Although holders of such converters could be prosecuted for possession of illegal property, Zimmerman said he would give them 30 days to turn in the stolen property. According to Zimmerman's spokesman, a list of names and addresses of people who bought Cardamone's illegal boxes was among the items confiscated by police in one of several searches of Cardamone's home and office.

According to police, Cardamone made 1,100 converters himself, after investing \$8,000 in parts, and bought the rest on the black market. The boxes were designed to allow the owner to receive pay signals, such as HBO, without paying the \$7 a month subscription charge to the local cable company.

—Gary Rothbart

CableVision/May 2, 1983

PHILADELPHIA - INQUIRER 4-19-83

Man charged in cable-TV piracy

Associated Press

SCRANTON — A man who called himself the "HBO Kid" was named by the state yesterday as the mastermind of the country's largest known cable television piracy ring, which cost five legitimate companies up to \$2.5 million over five years.

"They were so businesslike, they even made service calls," said state Attorney General LeRoy S. Zimmerman.

Frank Cardamone, 23, of Taylor, Pa., was arraigned before District Justice Eugene Cadden and released on his own recognizance pending a preliminary hearing April 26 at the Lackawanna County courthouse.

Cardamone's surrender followed an undercover investigation that Zimmerman said pitted "sophisticated electronic theft against sophisticated electronic surveillance."

He said Cardamone got an early

start in the electronics business and was "very clever, crafty and industrious." He said he even used the name "HBO Kid" on his business card and license plates.

Cardamone allegedly provided about 2,700 Northeastern Pennsylvania customers with illegal converters that unscrambled the signals of extra-cost television channels such as Home Box Office (HBO).

Customers of the piracy scheme were charged a one-time fee of \$100 to \$125, compared with a monthly charge of \$7 for a legal converter from each of the five cable companies that operated in the region, the attorney general said.

To avoid suspicion, Zimmerman said, the cable pirates rented trucks similar to those used by cable companies in the area they served in Lackawanna and Luzerne Counties, mainly

in the Scranton-Wilkes Barre area.

Zimmerman said his agents planned more arrests over the next several weeks, including people allegedly trained by Cardamone and others who acted independently.

Zimmerman said that Cardamone's customers also could face criminal charges, but that his office and the cable companies agreed to a 30-day grace period during which customers can avoid prosecution by turning in their illegal equipment.

Cardamone is charged with one count of conspiracy and two counts of theft. If convicted, he faces a maximum sentence of 14 years in prison and a \$30,000 fine.

The companies victimized by the scheme, Zimmerman said, were Adams Cable TV, Blue Ridge Cable TV, Northeast Cable TV, Service Electric Co. and Verto Cable TV.

Judge Denies Cable Firm's Decoder Plea

By Sylvia Moreno

Mineola — A State Supreme Court justice has thwarted Cox Cable's attempt to obtain the names and addresses of buyers of decoding devices that the Great Neck firm claims provide illegal access to cable programming.

In an order issued yesterday by Justice Alexander Berman, Cox Cable New York Inc. lost a round in its legal battle against Telescan of Port Washington, a company that sells devices that Cox contends unscrambles cable television signals and allows consumers illegal access to premium channels that cost Cox subscribers \$79 a month. In a bitter dispute that started in November, Cox has been trying to obtain the names of persons who purchased decoders from Telescan and C&J Industries as a prelude to suing the consumers for theft of services.

In January, a State Supreme Court justice ordered both companies to give Cox a list of their decoder customers. But when the hearing to disclose the lists was held in February, Telescan claimed it did not keep records of its customers and C&J provided no information on its customers in Cox's primary market area, Great Neck. Subsequently, Cox went to court on March 18 asking for Telescan's banking records to obtain names of customers. Yesterday, Berman denied the request.

"... it appears that cable television converters are not the only items sold by Telescan and the unveiling of all checks used in making purchases would undoubtedly serve to identify innocent purchasers of equipment other than converters and make them prospective defendants in unwarranted litigation causing them unnecessary and unjustifiable annoyance and expense," Berman wrote in a three-paragraph order.

"They have no right to get our records or to intimidate our customers," Neil Primis, president of Telescan, said yesterday.

Cox Cable's marketing director, Robert Mosebach, said the firm is "to say the least, disappointed." He said the firm had not decided whether it will appeal Berman's ruling on the motion. Mosebach estimates that Cox loses \$15,000 a week to consumers in the Great Neck area who buy decoders, purchase basic service for \$7.95, then illegally gain access to premium channels. The sale of decoders or signal unscramblers in New York is not illegal. But using the devices to gain access to cable service for free is.

Cox is also suing Telescan, C&J Industries and Richard Friedman of Bellmore, all distributors of decoders according to Cox, in U.S. District Court. In a suit filed Feb. 24, Cox is suing the three parties for more than \$15 million in compensatory damages and \$5 million in punitive damages for more than 30 alleged violations of federal law, including illegal interception of private television communication; violation of federal copyright and trademark laws; and illegal interference with Cox's contractual agreements.